



County of Los Angeles CHIEF EXECUTIVE OFFICE

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DAVID E. JANSSEN
Chief Executive Officer

July 17, 2007

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF TAX-EXEMPT COMMERCIAL PAPER AUTHORIZATION AND APPROPRIATION ADJUSTMENT FOR LAC+USC MEDICAL CENTER REPLACEMENT PROJECT (FIRST DISTRICT) (4-VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1. Approve a not to exceed limit of \$94.3 million on the issuance of Tax-Exempt Commercial Paper (TECP) to finance project costs in 2007-08 for the LAC+USC Medical Center Replacement Project to temporarily backfill delayed Federal Emergency Management Agency (FEMA) project funding.
2. Approve the attached appropriation adjustment to increase appropriation by \$20.0 million funded by the issuance of Tax-Exempt Commercial Paper (TECP) for the Fixed Assets-Building and Improvements LAC+USC Medical Center Replacement Project capital expenditures.

PURPOSE/JUSTIFICATION

Approval of the recommended action will allow the issuance of TECP to temporarily fund project costs resulting from the delay in receipt of the final FEMA grant reimbursement related to the LAC+USC Medical Center Replacement Project.

Background

A grant of \$469 million from the FEMA and OES is the largest single source of funding for the Medical Center Replacement Project. Additionally, proceeds from the securitization of the Tobacco Settlement revenue stream and County resources have been used to fully

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Fifth District

fund the project. To the extent that the FEMA grant is on a reimbursement basis (i.e., costs have to be incurred and paid to the contractor before being eligible for reimbursement by FEMA), the County has sold Commercial Paper to fund the cash flow deficit created by the reimbursement process. The Commercial Paper has been repaid as the grant funds and the proceeds of the Tobacco Securitization were realized.

In March 2007, the California Office of Emergency Services, which administers the FEMA grant, notified the County that the remaining \$94.3 million balance of unreimbursed expenditures for the Replacement Project would not be released until all work on the project had been completed and a final inspection audit conducted. The delay in reimbursement has created a delay in project funding which must be bridged to ensure the timely completion of the project and fulfillment of contractual obligations.

The \$94.3 million shortfall is made up of: 1) a 12% grant withhold (\$54.3 million) pending completion of the final inspection close-out audit; and 2) a \$40.0 million disaster-related repayment charge against the project. Days after the Northridge Earthquake occurred, FEMA advanced to the County \$40.0 million for recovery activities. In 1998 when the County was cash-strapped, FEMA demanded the advance be repaid. However, in lieu of cash, FEMA agreed to accept repayment through a charge-back from our only project large enough to sustain a \$40.0 million reduction of cash, i.e., the Medical Center Replacement Project. Meanwhile, the \$40.0 million advanced to the County was utilized to defray costs of other insured and non-insured earthquake repair projects pending their close-out review by FEMA. The \$40.0 million will be slowly recouped as earthquake repair projects are completed and processed through their initial programmatic reviews by FEMA staff. FEMA project close-outs are running approximately two years after the County submits project claims.

Alternatives

Accrual/Reserve vs. Commercial Paper

Two options are available to address this interim project funding shortfall: accrue the anticipated revenue which will require the establishment of a General Fund reserve or the issuance of commercial paper. Option 1 would require the County identify and set aside \$94.3 million in a reserve in the General Fund. Although the County is owed this amount as an account receivable, it is not expected to be received during FY 2007-2008 and is therefore not available to finance the budget for this fiscal year. Once the receivable becomes collectible with reasonable certainty within a 12-month period, the reserve would be canceled and the funds would become available for General Fund purposes. Option 2 would be to issue TECP which would be repaid upon receipt of FEMA funds. We are

recommending Option 2 so as not to unnecessarily encumber County General Fund resources.

Based on prior experience with FEMA audits of County projects, it is unclear if FEMA will be able to begin and complete their audit of the Medical Center Replacement Project within the next 12-month period. It is recommended that your Board approve the specific authorization for TECP issuance for the Replacement Project. On June 19, 2007, your Board adopted the 2007-08 Debt Management Guidelines which included this issuance of TECP.

FISCAL IMPACT/FINANCING

Approval of the recommended action will enable the County to fund the remaining capital project costs and contractual retention. Upon completion of the project, FEMA can begin their project audit process. The Medical Center Replacement Project is partially funded by \$422.1 million FEMA and \$46.9 million State Office of Emergency Services grants. To date, the County has received \$332.7 million and \$42.0 million, respectively.

The 2007-08 Adopted Budget included \$74.3 million appropriation and offsetting TECP revenue. The attached appropriation adjustment will increase appropriation, offset with TECP, in the amount of \$20.0 million in the 2007-08 Adopted Budget – LAC+USC Medical Center Replacement Facility to fully account for the remaining project expenditures to be made. Funding for the interest expense on the issuance of TECP has been included in the 2007-08 Adopted Department Health Services (DHS) Operating Budget. Interest costs are estimated to be approximately \$4.5 million in the current fiscal year. DHS will include funding of future interest expense amount related to the TECP issuance in their annual Proposed Operating Budget requests.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

FEMA is required to complete an audit for each project which is funded through Federal and State disaster aid monies before releasing all the grant funds to a recipient agency.

IMPACT ON CURRENT SERVICES

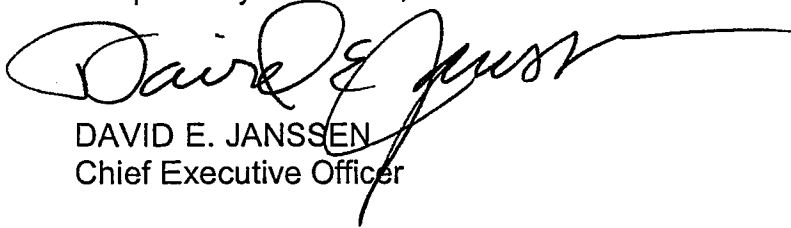
The Medical Center Replacement Project construction is currently anticipated to be completed by December 2007. The Treasurer-Tax Collector will issue TECP on July 18, 2007 to fund the remaining capital project expenditures so as to not delay project completion.

The Honorable Board of Supervisors
July 17, 2007
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CONCLUSION

Upon approval of the recommendations, please forward an adopted, stamped copy of the Board letter to my office.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David E. Janssen", with a long horizontal flourish extending to the right.

DAVID E. JANSSEN
Chief Executive Officer

DEJ:JSE
DJT:DKM:zu

Attachment

c: County Counsel
Auditor-Controller
Treasurer and Tax Collector

COUNTY OF LOS ANGELES

REQUEST FOR APPROPRIATION ADJUSTMENT

DEPT'S.
No. 060

DEPARTMENT OF CHIEF EXECUTIVE OFFICE

JULY 3, 2007

AUDITOR-CONTROLLER.

THE FOLLOWING APPROPRIATION ADJUSTMENT IS DEEMED NECESSARY BY THIS DEPARTMENT. WILL YOU PLEASE REPORT AS TO ACCOUNTING AND AVAILABLE BALANCES AND FORWARD TO THE CHIEF ADMINISTRATIVE OFFICER FOR HIS RECOMMENDATION OR ACTION.

ADJUSTMENT REQUESTED AND REASONS THEREFOR

FY 2007-08

4 - VOTES

SOURCES

Capital Projects/Refurbishments
LAC+USC Medical Center Replacement
Tax-Exempt Commercial Paper
J17 - CP - 65038 - 70787 - 94 - 9276
\$20,000,000 Increase Revenue

USES

Capital Projects/Refurbishments
LAC+USC Medical Center Replacement
Fixed Assets - Building and Improvements
J17 - CP - 65038 - 70787 - 6014
\$20,000,000 Increase Appropriation

JUSTIFICATION

The appropriation adjustment is required to fund capital expenditures on an interim basis until completion of a FEMA audit and receipt of the entire FEMA grants funds related to the LAC+USC Medical Center Replacement Project (CP No. 70787).

John A. Edmister ✓

CHIEF ADMINISTRATIVE OFFICER'S REPORT

REFERRED TO THE CHIEF
ADMINISTRATIVE OFFICER FOR -

ACTION

APPROVED AS REQUESTED ✓

AS REVISED

RECOMMENDATION

JULY 5, 2007

D. Lippari ✓
CHIEF ADMINISTRATIVE OFFICER

AUDITOR-CONTROLLER

BY

Mike Long

APPROVED (AS REVISED):
BOARD OF SUPERVISORS

20

NO.

003

JUL 3

2007

BY

DEPUTY COUNTY CLERK